

**Performance Evaluation
of Libuyile Community Development Trust (LCDT)**
(Grant Agreement No. 674-0312-G-SS-4165-00, as amended)

EVALUATION REPORT

Prepared for & Submitted to:

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Joel Kolker, USAID

Lansana Marah, Chief Executive Officer of Libuyile Community Development Trust (LCDT)

Richard Martin, Trustee of LCDT

Jankie Mokonyane, Program mentee and Trustee of LCDT

Cleopas Nsibande, Trustee of LCDT

Steve Phohlela, Initiator of Phofung Sandstone (telephonic)

Nic Walters-du Plooy, Director of MIDDEV

Thandi Sigodi, Trustee (Chairperson) of LCDT

Executive Summary

Libuyile Community Development Trust (LCDT) was founded in Johannesburg in 1994 with the purpose of raising and administering funds for: underwriting the costs of technical, social and professional support to CBOs to enable them to prepare project funding proposals; funding a "mentee" program to attract young graduates into the low-income housing field; funding training for NGOs and CBOs; funding the development of business plans for building materials / loan outlets; and funding housing-related research. The need for such a Trust - *i.e.* for project preparation funding - was recognised by the founding Trustees, based on their experiences gained under USAID's Shelter and Urban Development Support (SUDS) and Community and Urban Services Support (CUSSP) programs, but was also prompted by the establishment of a similar Trust based in Durban. In 1994 LCDT applied for and was granted a USAID Grant of \$1 million (then R3 150 000). The period of the Agreement was initially two years, but this was extended until September 1999. The Grant was to be used mainly to fund LCDT's operating expenses and to enable it to establish a revolving fund to underwrite the costs of the preparation of project proposals.

The purpose of this report is to evaluate LCDT's performance against the conditions of the USAID Grant Agreement. The methodology consisted of: a thorough review of documents; interviews with key players; and a comparison between LCDT's actual performance and the objectives stated in the Grant Agreement. Before reporting on our findings, it must be noted that we had some difficulty in reconciling certain activities of the Trust with the corresponding program elements in the Agreement. This was often the result of semantic ambiguity or lack of clarity in the Agreement clauses. We believe that this resulted in the Trust becoming involved in activities and programs that the Trustees regarded as falling within the broad aims of the Grant Agreement, using their understanding of these, rather than the actual wording of the clauses, as intervention guidelines. Our main findings were:

LCDT has succeeded in achieving the main objective of the Grant Agreement, *i.e.* to establish the Project Preparation Facility Loan Fund and to issue loans. It has been far less successful at recovering these loans and revolving the capital. As at September 1998, a total of R600 000 had been lent to 3 clients at market-related interest rates of around 20%. Only R168 000 of this amount has been recovered (but has not been recycled) and, in our opinion, repayment of the balance does not seem imminent. The possibility exists that some of this may have to be written off. The main reason given by clients for non- or slow repayment was that subsidies had not been forthcoming from the Provincial Housing Board, which meant that sales of show houses (the source of loan repayments) could not proceed. As a result, the Loan Fund has effectively been paralysed. From the recipients' perspectives, these loans were very worthwhile, but we believe that it would have been far better in terms of broadening the impact of the USAID intervention and reducing the risk of non-repayment, had more loans of smaller amounts been made.

LCDT invested R1.5 million in Rural Housing Finance (RHF), a micro-lending company. The investment took the form of a debenture (coupon rate of 10%, linked to fluctuations in the Reserve Bank rate, and maturing in July 2002). Part of the deal was that LCDT would obtain a seat on the Board of RHF. LCDT's R1.5 million has, along with a similarly structured debenture for R2.57 million, taken out by the South African Enterprise Development Fund, been employed by RHF to satisfy the 8% capital adequacy requirement of the National Housing Finance Corporation for the release of a R50 million loan which RHF has lent-on as micro-loans for incremental housing improvements. The LCDT contribution leveraged R18.75 million (ratio of 1:12½) and, at current (October 1998) interest rates, generates a useful monthly income for

LCDT of about R17 700, which it uses to off-set general operating expenses. Approximately 1 340 borrowers benefited by receiving short-term loans (averaging R9 300) to be used for incremental housing improvements (although it cannot be verified that the loans were actually used for this purpose). In terms of the USAID Agreement it was intended that LCDT would fund the "design and development of finance for small-scale... credit on-lending". The debenture relates to this intention, but we were unable to determine whether or not the loan was permissible in terms of the Agreement (LCDT and the USAID Project Officer think it was) - we, however, remain convinced that the purpose of the loan was to capitalise a business, which is expressly forbidden in terms of the Agreement.

LCDT granted R50 000 to the Vaal Community Development Trust (VCDT), an NGO interacting with fourteen communities spread throughout the Vaal area on issues related to housing policy development and modes of delivery. The actual use of these funds did not comply with the intended use of such Grants as stipulated in the main USAID Agreement.

Two grants, totalling R90 000, were made to employers of mentees. One of these contracts was reasonably successful, but the other was interrupted prematurely due to the dismissal (by the employer) of the mentee. An issue we were unable to clarify was whether or not the grants could be used to pay mentees' salaries. LCDT believes this to be legitimate, because its Deed of Trust specifically states this as an objective, but our interpretation of the USAID Grant Agreement is that this is not permissible. The situation regarding the interrupted mentee contract was unresolved at the time of writing - LCDT and RHF (the employer of the mentee) agreed that the balance of the grant would be spent on a new mentee, but this had not yet occurred. We believe that this was an under-exploited opportunity - R90 000 could have had a far greater reach than just two individuals - and we do not consider it to have been a worthwhile employment of funds.

From LCDT's perspective, lessons learned from the Grant included: understanding the importance of good lending policies; realising that over-dependency on one key individual leaves the Trust vulnerable; and understanding the value of co-ordinating and facilitating, rather than doing. From our perspective as evaluators, the main lesson learned was that the program was too broad and, as such, was unachievable.

Our main conclusion was that LCDT strayed from its original purpose. It started out intending mainly to fund the preparation of project proposals and ended up concentrating most of its resources, efforts and enthusiasm on retail micro-lending. We believe that this occurred partly because it was understaffed and partly because, as a result of unforeseeable circumstances, its main purpose of operating a *revolving* loan fund proved less feasible than originally imagined.

Based on our strict interpretation of the degree to which LCDT has achieved the purpose and objectives of the Agreement, we recommend USAID **not** to extend the period of the Agreement beyond the 30 September 1999 expiry date. Funds remaining in the Project Preparation Facility Loan Fund (including the capital portion of the repayments still due from all three projects) should either be returned to USAID, or should alternatively be distributed by LCDT in the form of grants to needy NGOs and CBOs in the housing sector, in line with LCDT's original function as a regional funding "umbrella" for USAID assistance. We do acknowledge, however, that our perception of LCDT's under-performance is based on an Agreement which contains an unrealistic, broad set of program elements and is confusing in various instances. If USAID endorses our view that the Agreement is both over-ambitious and ambiguous, then the Agency may in fact wish to **reconsider** our recommendation not to extend. Should the Agreement be

extended, then we recommend that the issues relating to its scope and interpretation are also addressed. Moreover, LCDT should then consider implementing the detailed recommendations made in sections 6 and 8 of this report.

1. Introduction

1.1 Purpose of Evaluation

This report documents the results of an evaluation of the Libuyile Community Development Trust (LCDT). The main objective of the evaluation was to compare LCDT's progress to date relative to its stated goals and those of the SO6 Team.

A second objective was to synthesise the achievements of LCDT in relation to SO6 RP#2 and RP#3 and to SO6 in general.

1.2 Methodology

Document review: A careful study of the main Agreements, amendments and related documents such as Trust Deeds, was undertaken in order to establish the main purpose and objectives of the grant. In addition to these documents, we obtained from USAID all internal semi-annual and final reports on the project and studied these.

Interview with CUSSP Official: A meeting was held in Pretoria with Russell Hawkins, the CUSSP official and Joel Kolker, USAID official responsible for the LCDT project. From this meeting and a study of documents provided by Macro International we obtained an overall understanding of the nature and purpose of SO6, RP6.2, RP6.3 and LCDT.

Interviews with Key Players: Following the document reviews, we visited LCDT at its Johannesburg Offices and conducted a series of structured interviews with the Chief Executive Officer and three members of the Board of Trustees. In addition, we visited and interviewed the Chief Executive Officers (CEOs) of Rural Housing Finance and MIDDEV at their offices. The objective of the interviews was to develop an understanding of how the interviewees perceived the activities and accomplishments of the Trust relative to the specific objectives of the Agreement and to establish whether or not they were acquainted with and understood the stated purpose and objectives of the grant, as defined in the amended Agreement. In addition to conducting interviews, we requested and were given access to additional documentation describing the Trust's activities as well as board meeting minutes. We also requested and were furnished with contact details of Board members and other key individuals in the activities of the Trust.

Survey of Mentee: A further meeting was held with one mentee. A questionnaire aimed at establishing the effectiveness of the training was administered during the meeting.

2. Background

In terms of the original Agreement with USAID dated September 1994 (LCDT Agreement No. 674-0312-G-SS-4165-00), it was intended that:

'the trust will complement CUSSP activities and will become a regional funding "umbrella" for USAID assistance to CBOs and NGOs engaged in the planning and development of low income housing and related infrastructure in the PWV (Gauteng). LCDT will promote broad-based and strong community involvement in housing and urban development in the PWV and

will be a channel for financial and technical support to assist community-based housing and urban development. The Trust, as a focal point for community-based development in the region, will provide consultants for policy development and applied research, information dissemination, training, mentoring for young black development professionals, and a lobby for an institutional, legal and regulatory environment that will provide the supportive context for community-based development.'

3. USAID's Original Assistance Approach

The grant issued in September 1994 was for the amount of \$1 million (then R3 150 000) and was due to expire in September 1996 (see section 4.1 for details of amendments).

3.1 Original Purpose

The original purpose of the Agreement entered into in September 1994 was to *"strengthen the ability of black South African communities and individuals in the PWV to work directly with development-oriented technical organisations of their choice to pursue community-driven housing infrastructure development programs."* Further it was *"to assist these technical organisations and other private sector entrepreneurs to provide more appropriate services in support of housing improvements for the beneficiaries."*

3.2 Original Objectives

In order to achieve the purpose of the grant, the following objectives were set:

- i. to support the establishment of LCDT by funding the establishment and operation of a regional office in Johannesburg
- ii. to underwrite the costs of creating a revolving fund to support the preparation of community-based housing development proposals
- iii. to support small-scale credit and building materials supply initiatives
- iv. to support community capacity-building and training
- v. to support the mentoring of disadvantaged development professionals
- vi. to fund research and studies in support of community-based housing delivery
- vii. to underwrite the cost of small grants.

3.3 Original Program Elements

The grant Agreement contains details of a program designed to realise the objectives outlined above. The main elements of the program as contained in the original Agreement are:

- i. the establishment of a Project Preparation Facility
- ii. the initiation of a support program for incremental housing improvements
- iii. the provision of training support for community-based organisations
- iv. the initiation of a mentoring program for young professionals
- v. the support of research and policy development
- vi. the provision of grants.

4. Findings

4.1 Introduction

In this section we systematically address the Scope of Work (see Annex A) for this evaluation. In the brief we were given the emphasis was on identifying LCDT's actual achievements and comparing these against the intended results specified in the Grant Agreement. In many cases LCDT's actual performance was not entirely in accordance with the Agreement, or we were unsure of how to interpret the Agreement - and therefore how to classify the performance. We have described such performance as failing to fully comply with the Agreement, or in some cases, deviation therefrom.

The Grantee's comments on the draft evaluation report were critical of the fact that we had allegedly missed the "broad picture" - *i.e.* that we had failed to comment on the value of LCDT's interventions, regardless of the extent to which they had satisfied the specific requirements of the Agreement. While, the SOW did not call for such a general assessment from a broader perspective we offer our opinion on the general value of Libuyile's achievements in paragraph 4.8. In the presentation of our findings in sections 4.2 to 4.7 we have, however, been guided by the Scope of Work, which called for a comparison of actual achievements versus intended results.

Before the presentation of our findings it is also important to note that in our discussions with the USAID Project Officer, we were informed that over the period of the Agreement there had been ongoing dialogue between LCDT and USAID. Given the initial slow rate of progress and disbursement, USAID had -in light of the fact that this was a grant which they considered to naturally involve an element of risk- (verbally) encouraged LCDT to spend the money as best it saw fit - provided that such expenditure was in general accordance with the Agreement. Hence, as will be apparent from our findings and comments, LCDT adopted a far less rigorous interpretation of the Agreement than we did.

4.2 Changes to the Purpose and Program Elements

The original two-year Grant was due to expire in September 1996, but this was extended in terms of Amendment 1 to September 1998, and subsequently in terms of Amendment 3, to September 1999. Amendment 2 had no effect on the term, but revised the required reporting format. Amendment 1 did not substantially alter the original purpose, but broadened it to include Local Authorities in the group of housing delivery service providers whose capacity the program sought to improve. Although no additional US\$ funding was awarded in terms of any of the amendments, Amendment 1 did formally award Rand gains resulting from exchange rate fluctuations to LCDT, and all amendments revised the allocation of the funding across the various line items. No amendments were made to the seven original objectives, but the program elements were broadened in scope.

Revised Program Elements

1. *Establish a Project Preparation Facility Loan Fund.* This element encompasses the

establishment of a separate fund to be used for the provision of loans for the preparation of community-based housing projects.

2. *Provide technical assistance to communities and local governments.* This includes the development of pilot projects to: leverage private sector funds; develop public/private partnerships; develop improvement of policy environment; develop models of environmentally sound sustainable development; further develop and refine CUSSP housing delivery models.
3. *Support incremental housing improvements.* This consists of the design and development of finance for small-scale loans; collective materials supply; on-site technical assistance; entrepreneurial development.
4. *Provide training support for CBOs.* The scope of this element includes funding the training of key individuals in the housing delivery process and sponsorship of briefing papers, workshops, seminars, other training sessions, and possible international training.
5. *Establish a mentoring program for young professionals.* This element encompasses supporting the placement of black graduates in mentor organisations supporting community-based housing and urban development. In this context 'support' means funding, but not provision, of in-service training courses. LCDT's role is to evaluate requests from graduates, define objectives and job descriptions, and generally oversee the placement of such individuals.
6. *Provide policy and research support.* This means providing input into regional policy and program formulation processes. LCDT can design and/or fund studies which advance the interests of blacks in housing delivery or development process.
7. *Provide support for environmental initiatives in connection with residential areas.* This includes working with local authorities in the development of environmental policy and funding demonstration projects with community involvement in the context of informal settlements.
8. *Facilitate public/private sector partnerships.* This element encompasses giving developers the security to proceed with confidence in housing developments and giving emerging contractors and developers appropriate opportunities to gain experience and grow.
9. *Evaluation of Trust's performance.* This element provides for the evaluation of methods used in implementing projects, resources required and impact achieved and field-testing against evaluation guidelines.
10. *Provide grants not exceeding R50 000 to organisations.* This provides for the preparation of financial plans and the design of projects which will be used to raise capital from other donors.

4.3 Changes in the Organisation of the Trust

The Trust was established in July 1994 with six founding trustees appointed for one year. The

trust deed provided for their mandatory retirement at the end of this period, with provision being made for their possible reappointment. A new Board of Trustees duly took office in July 1995 and in April 1997, a full-time CEO was appointed. This appointment was made because, in the period 1994 to 1996, very little had been achieved, mainly because of conservative management by the then chairman of the Board of Trustees. Loan applications were typically rejected because of the high element of risk. In the light of LCDT's lack of achievement, USAID threatened to withdraw the grant. The Trust responded by requesting an extension of two years, substantially revising the purpose and program elements, and deciding to employ a manager and full-time secretary to oversee the implementation thereof.

4.4 Achievements

The two main purposes of the LCDT grant are: to build capacity in previously disadvantaged communities to enable them to work directly with development organisations in the pursuit of community-driven housing infrastructure development programs; and to assist development organisations and local authorities to provide these communities with more appropriate services in support of housing improvements. Figure 1 depicts how the Trust has sought to achieve these aims.

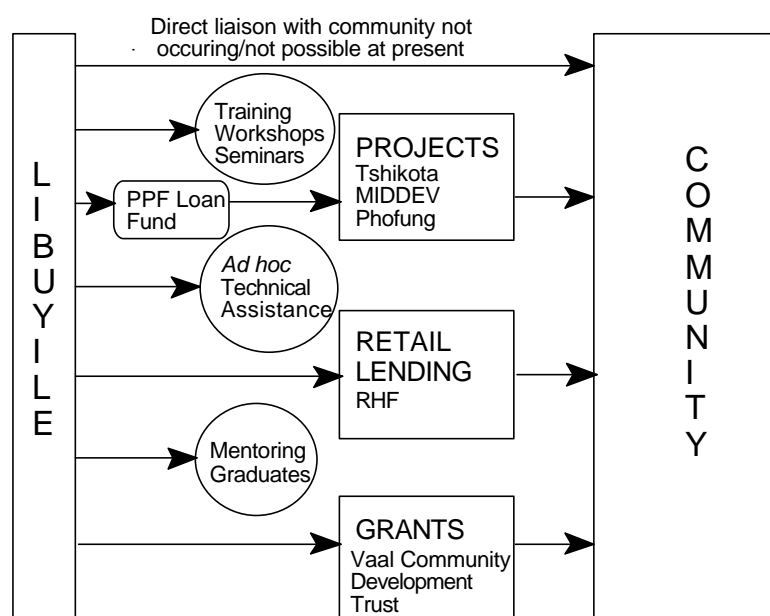


Figure 1: LCDT's Intervention Model

The first purpose has been partly achieved through LCDT's support of and involvement in three projects, viz, the Tshikota Development Trust; the MIDDEV Development Association; and Phofung Sandstone Construction. In addition, LCDT has facilitated the mentoring of young, previously disadvantaged graduates in the acquisition of housing-related skills. The second purpose has been achieved partly through the Trust's debenture investment in a private sector retail lending company, Rural Housing Finance, and partly through its grant to the Vaal Community Development Trust. None of the LCDT's activities have involved direct liaison with or loans to individual community members - all such contact has occurred via projects.

Sections 4.3.1 to 4.3.6 below relate to the main objective of this evaluation, namely, to present LCDT's achievements and to compare these with the agreed intended results.

See section 4.5.2 (d) for notes regarding deviation from Agreement.

4.4.1 Project Preparation Facility (PPF) Loan Fund

LCDT has complied with the requirements of Program Element 1, which requires the establishment of a separate revolving loan fund. As described below in Section 4.3.2 Projects, three loans have been provided to support community-based housing processes. All agreements required the repayment of the loan, but there have been difficulties in this regard. In one case, no repayments have yet been received and in another only interest has been paid.

Degree of conformance with intended results. The fact that these loans might eventually be fully repaid is little consolation. The effect of non-payment and slow or erratic repayment is that less is available for new loans. Thus, LCDT has complied with the condition requiring the establishment of the fund, but because the rate of revolution is beyond its control, it has not been able to fully comply with the intended result of recycling its funds. Our view is that this problem could have been diminished had more, smaller loans been made.

4.4.2 Projects

(a) Tshikota Development Trust

Tshikota is a township of approximately 5 000 people consisting of both formal and informal elements. The township, situated at Louis Trichardt in the Northern Province, was originally developed in the 1950's, but its residents were forcibly removed under apartheid legislation. Plans to re-establish the township got underway in 1991 with the IDT/Province-funded development of 600 stands. In 1993 CUSSP was approached to assist Tshikota in raising the necessary funds to erect 600 top structures. With CUSSP's support, the residents formed the Tshikota Development Trust (TDT), identified a developer (Project Group), and signed a social compact in 1995. The relationship between TDT and Project Group is a 50-50 joint venture. In our discussions with LCDT's CEO, we were informed that the joint venture was initially stable, but that subsequently Project Group attempted to overshadow TDT by diminishing its involvement and allegedly might have adopted "creative" accounting practices to reflect as little profit as possible, thereby effectively diminishing TDT's income from profit. LCDT believes that this sort of problem could have been avoided had the joint venture been brokered and the books audited by an external consultant such as itself.

Two applications have been made to the Provincial Housing Board by the joint venture partners, one for a Consolidation project (subsidies for 600 top structures), and one for a Greenfields development (infrastructure and top structure). Project Group applied to LCDT for a R500 000 bridging finance loan in early 1996. At the end of 1996 the Board approved the application, but for the reduced amount of R200 000, at an interest rate of 21%.

Part of this loan was used to fund technical studies and the preparation of project proposal documentation. In addition, LCDT's CEO prepared a geo-technical report. The balance of the loan plus a further R1 million contributed by Project Group has been used to leverage R25.1 million (R5.1 million for the Consolidation project and R20 million for the Greenfields development). To date 350 top structures have been constructed under the Consolidation project. Progress on the Greenfields development includes: all bulk services; 90% of internal infrastructure reticulation; 130 new houses; and foundations for over 300 houses. By September 1998, R179 405 had been repaid to LCDT (of which about R160 000 has gone towards capital redemption), leaving an outstanding balance of approximately R84 000.

Degree of conformance with intended results. This project relates to Program Element 1, which provides for loans to fund community-based project preparation. The loan was used for an appropriate purpose and most of the capital and interest have been recovered.

Program Element 1 further stipulates that "the total loan amount ... will be recovered ... and will be recycled to the Revolving Project Preparation Facility loan fund for utilisation on future projects". As noted above, about 80% of the loan amount has been recovered, but the funds have not been utilised on new projects.

LCDT's production of a geo-technical report relates to the "on-site-technical assistance" component of Program Element 3 (support of incremental housing improvements).

(b) MIDDEV Development Association

Ivory Park is an informal settlement, situated near Midrand in Gauteng, where the construction of 17 000 houses has been planned. The MIDDEV Development Association is a Section 21 company established in 1996 to promote economic development in the Ivory Park settlement by focussing on training, the development of SMMEs, and the construction of infrastructure and housing. MIDDEV is a public-private-community joint venture with a Board of 12 members made up of four community members, four members from the Midrand Municipal Council and four members from private sector business.

The Midrand Municipal Council applied to the Provincial Housing Board for the construction of 2 000 houses in Phase 1, and after a frustrating delay the land was formally proclaimed as a residential area in December 1997. MIDDEV approached LCDT for a loan of R2 million, which it intended to use for: the training of community members in building skills; the construction of a show village; and the establishment of a housing support centre. This application was rejected, but LCDT's Board approved the lesser amount of R200 000 which was used for the on-site manufacture of concrete blocks and the construction of a 12-house show village. In addition to the provision of the loan, LCDT's CEO facilitated the compilation of the application for Phase 1 and its presentation to the Provincial Housing Board. Notwithstanding its approval of the project, the Provincial Housing Board has not yet paid over any subsidy monies. As a result, MIDDEV has not sold any show houses and has been unable to repay the debt. By September 1998, two payments totalling R7 992 had been made to LCDT (of which a negligible amount went towards capital redemption). The outstanding balance is reflected in LCDT's balance sheet as a "loan receivable", valued at R245 978.

Degree of conformance with intended results. LCDT argues that this project relates to Program Element 1, which allows for the provision of loans for community-based project preparation. However, the loan was used to fund the construction of new show houses, rather than to pay consultants for the preparation of the project proposal (which is what we believe "project preparation" means).

Loan repayments have been dismal - only two payments (mainly interest), have been received.

Local emerging contractors were employed and trained by the developer in the construction of new show houses. This relates to the second objective of Program Element 8.

LCDT argues that in addition, the "collective materials supply" component of Project Element 3 (support program for *incremental* housing improvements) was addressed, because part of the loan was used to fund the manufacture of concrete blocks on-site by the community. We disagree with this interpretation, because the project consisted of *new* show houses, rather than *incremental* housing improvements.

(c) Phofung Sandstone Construction

Mandela Park is an informal settlement of about 2 000 people within the town of

Phuthaditjhaba in the Free State. In 1995 the Mandela Park residents approached CUSSP to assist in its development and this resulted in the Witsieshoek Community Development Trust. At the instigation of a local member of parliament, Steve Phohlela, an investigation was made into the viability of manufacturing sandstone blocks from local deposits, for the dual purpose of providing both shelter and employment. The potential market for the sale of the blocks included Mandela Park as well as informal settlements in the surrounding areas and is worth an estimated R50 000 per year (net profit). A decision was taken to establish a mechanised factory for the production of sandstone blocks and LCDT was approached for a R500 000 loan in March 1997. LCDT issued a loan of R200 000 to Phofung Sandstone Construction in May 1997, which has been used to: establish and operate a quarrying operation; set up a 3 000 m² block manufacturing factory and the purchase of stone-cutting equipment. The ability of Phofung to repay the loan is linked to the Provincial Housing Board's approval and payment of subsidies, in that the demand for and sale of sandstone blocks will only commence once the construction of houses begins. The situation at present is that only 20 show houses have been built and no repayments have been made at all. The outstanding balance is reflected in LCDT's balance sheet (as at September 1998) as a "loan receivable", valued at R261 095.

Degree of conformance with intended results. As noted above for the MIDDEV loan, LCDT believes that this project relates to Program Element 1, which allows for the provision of loans for community-based project preparation. However, the loan was mainly used to establish a quarrying operation and set-up a block-making factory. Although LCDT's CEO helped with the preparation of the project proposal, the loan was not used to fund this.

Local emerging contractors were employed and trained by the developer in the construction of new show houses. This relates to the second objective of Program Element 8.

As noted above for MIDDEV, LCDT believes that the "collective materials supply" component of Project Element 3 (support program for *incremental* housing improvements) was addressed, because the sandstone quarrying and block manufacturing operations produced building materials. We disagree with this interpretation, because the project consisted of *new* show houses, rather than *incremental* housing improvements.

4.4.3 Retail Lending

(a) Rural Housing Finance Company (Pty) Ltd. (RHF)

RHF is a wholly owned subsidiary of the Rural Finance Facility¹. RHF specialises in the provision of micro-loans for incremental housing improvements to the low-income previously disadvantaged population. Its current book (September 1998) includes a total of 5 485 loans of which 98% are secured against provident funds and 2% are unsecured.

LCDT became involved with RHF in August 1997 by taking out a debenture of R1.5 million which was used to leverage funds from the National Housing Finance Corporation (NHFC) and secure a seat on the Board of RHF. A similar debenture was taken out by the South African Enterprise Development Fund (SAED) in the amount of R2.57 million. At the then applicable factor of 10, the debentures were, respectively, responsible for leveraging R15 million and R25 million - a total of R40 million from the NHFC. Due to a recent change in the NHFC capital adequacy rule, these debentures have, respectively, leveraged a further R3.75 million, and R6.25 million, bringing the total in the case of the LCDT debenture to R18.75 million.

¹ A Section 21 company (non-profit organisation) involved in micro-lending

The LCDT debenture bears interest at a rate of 10% (as at the date of issue), linked to any fluctuations in the Reserve Bank rate. At current interest rates this represents an income to LCDT of about R17 700 per month. In addition, LCDT is entitled to 3% of RHF's net profit before tax (at the time of writing, RHF had never yet made a profit), capitalised annually to the loan balance and payable at the redemption date. The debenture matures in July 2002, where after LCDT has the option of converting it to shares.

Repayment periods for RHF loans are typically thirty-six to forty months and management are satisfied with repayment rates, which at September 1998 were reported as follows (see Table 1).

Table 1: RHF Arrear Debtor Report (by Debtor Ageing Category) as at 30 September 1998

No. % of Row Total % of Column Total % of Total No. of Loans	No. of Loans		
	Secured against provident funds	Unsecured	Row Total % of Total No. of Loans
Current	4240 99.4 78.6 77.3	27 0.6 29.7 0.5	4267 77.8
In arrears 1-60 days	826 96.7 15.3 15.1	28 3.3 30.8 0.5	854 15.6
In arrears 61-120 days	164 100.0 3.0 3.0	0 0.0 0.0 0.0	164 3.0
In arrears exceeding 120 days	164 82.0 3.0 3.0	36 18.0 39.6 0.7	200 3.6
Total No. of Loans % of Total No. of Loans	5394 98.3	91 1.7	5485 100.0
Total Value of Loan Book	R60 166 317	R217 974	R 60 384 291

In September 1998 the average amount of a new loan was about R8 300. However, the outstanding loan balance in respect of the 5 845 secured and unsecured loans as at September 1998 was R60 384 291 - which represented an average of R10 330 per loan since RHF started operations. For the purposes of the following we have therefore assumed an average amount of R9 300 per loan.

In an attempt to quantify the impact of LCDT's contribution, we estimate that the R18.75 million leveraged by the debenture has probably resulted in about 2 000 loans. However, because 33% of the total number of loans are second, third, fourth or fifth loans, R18.75 million would effectively have benefited about 1 340 individuals. Both LCDT and RHF are in agreement that LCDT's contribution should be measured in terms of the value of funds *leveraged* - which in effect means that both parties agree that the R1.5 million invested in the debenture was used for the purpose of capitalising RHF, rather than for actual loans.

Degree of conformance with intended results. LCDT's involvement with RHF relates to Program Element 3, which provides for a support program to incremental housing improvements. In particular, it relates to the component providing for the design and development of finance for small-scale, fast revolving credit on-lending.

Whether or not LCDT's debenture with RHF technically falls within the scope of this component is open to debate. LCDT was approached by RHF for a loan, which the latter then used to leverage parastatal funds raised on the capital market. The leveraged funds were used by RHF to provide short-term small loans for incremental housing improvements, administered under a system that it, rather than LCDT, had designed and developed. Given that LCDT negotiated a seat on the Board of Directors of RHF, it could be argued that it has had a say in the ongoing design and development of the RHF loan scheme.

Discussion. In response to a draft of this report, RHF submitted a letter emphasising that, although the LCDT debenture had enabled them to gain access to R18.75 million from the NHFC, the loan had had a far broader impact on RHF. This mainly referred to the timing aspect, the argument being that, had the LCDT loan not been available when it was, RHF would have had to find alternative capital at a critical point on its growth path - and this could potentially have forced it to suspend loan disbursements.

4.4.4 Grants

(a) Vaal Community Development Trust (VCDT)

The VCDT is involved in the development of appropriate modes of housing delivery and currently interacts with fourteen communities in towns spread throughout the Vaal area. Examples of its involvement include: cooperation with the Lekoa Vaal Transitional Council in support of its efforts to develop a regional housing policy; the preparation of an inventory of available and suitable land for housing; initiation of brick-making projects in Sebokeng; provision of training in life and technical skills for young women; and assistance in the establishment of the Lekoa-Vaal Economic Development Centre. LCDT provided a grant of R50 000 to VCDT to support these activities. The grant was mainly used for *informing communities about land availability* through the funding of studies to identify locations of developable land and sympathetic local authorities. In addition, LCDT's CEO was involved in capacity building by contributing to mass meetings and sectoral workshops, a role which has now been taken over by Urban Dynamics.

Degree of conformance with intended results. LCDT believes that the grant to VCDT satisfies the requirements of Program Element 10 (Grants). However, a literal interpretation of the Agreement requires the grant to be used as seed capital for the preparation of financial plans and/or the design of projects capable of leveraging funds from other donors. None of the reported uses of the grant appear to satisfy this requirement. However, the funding of land studies and VCDT's assistance in the development of regional housing policy (to the extent that the grant facilitated this) relate to Program Element 6 (policy and research support). The mass meeting and workshop inputs relate to Program Element 4 which provides for training support for CBOs. The Agreement, however, implies that LCDT should sponsor, rather than provide workshops and seminars.

4.4.5 Mentoring and Training

(a) Mentoring of Young Graduates

LCDT has been involved in the mentoring of two previously disadvantaged (but employed)

graduates, one from a legal and the other from a financial background. These individuals were selected as a result of their employers submitting motivated applications to LCDT for grants. In both cases the employers were business consultants or associates of LCDT, which is how they came to know of the potential availability of the grants.

Mentee 1: Jankie Mokonyane

Mr. Mokonyane was an employee of E.F.K. Tucker, the firm of Attorneys, Notaries and Conveyancers who had drawn up the Deed of Trust that established LCDT in 1994. In April 1996 E.F.K. Tucker applied to LCDT to have Mr. Mokonyane placed on a mentorship program and requested that a grant of R40 000 be made to cover the costs of: a conveyancing course; a notarial course; a course on writing skills; textbooks; attendance at conferences; and a portion of his salary.

Between 1994 and 1996, Mr. Mokonyane's training at E.F.K. Tucker had been mainly in respect of community development related work such as the preparation of social compacts, the registration of trusts and section 21 companies, etc. Mr. Mokonyane was transferred to the Conveyancing department because his work there would be less dependant on writing skills, which the firm had identified as being in need of improvement. Notwithstanding this transfer, the firm wished to develop his writing skills by enrolling him on a two-month course at a language training institute and applied for R2 560 in respect of this. At the time Mr. Mokonyane was enrolled on a Notarial Practice course and R1 300 was applied for to cover the cost thereof. The firm further requested that LCDT underwrite the cost of a conveyancing course (R1 500), textbooks (R700), and attendance at conferences (R4 000). The final component of the application was in respect of R29 940 as a contribution towards Mr. Mokonyane's salary. This amount represented about 44% of the budgeted cost to E.F.K. Tucker of employing Mr. Mokonyane for the year May 1996 to April 1997.

Degree of conformance with intended results. The above relates to Program Element 5 which provides for a mentoring program for young professionals. The main intention of this element is to support the placement of young graduates in mentor organisations which support community-based housing and urban development, with the goal of improving their experience base through in-service training and thereby enhancing their access to the normal professional job market. LCDT's role is to evaluate requests from trustees and mentor organisations, define the objectives and job descriptions of the positions created, generally oversee the placement and administer the financial aspects.

Whether E.F.K. Tucker can be defined as an "organisation which supports community-based housing and urban development" because it is involved in developmental law, the drafting of trust deeds, social compacts, etc. (presumably for a fee), is debatable. LCDT did not support the placement of Mr. Mokonyane at E.F.K. Tucker, given that he was already employed there at the time of the application. It did, however, support his transfer from the development law/commercial law department to the conveyancing department, although indications are that this would have occurred in any event. It is also likely that the in-service conveyancing and notarial training courses would have occurred in any event, but that the writing skills course would not have. If attendance at conferences and the cost of textbooks fall within the definition of "in-service training" then such expenditure contributed towards the satisfaction of the intended results.

Mr. Mokonyane has since left E.F.K. Tucker and now works for the development consultancy, Sigodi Marah & Martin. It is unclear whether or not the conveyancing and notarial skills acquired by Mr. Mokonyane under the mentorship program were instrumental in his obtaining

this position, nor is it clear whether or not he applies them in his work.

Mentee 2: Sam Ngoma

Mr. Ngoma was an employee of Rural Housing Finance (Pty) Ltd., when the latter applied to LCDT for R60 000 to fund a mentoring program for him. The initial application proposed that LCDT would contribute *pro rata* to the cost of Mr. Ngoma's employment/development, made up of: R85 000 for salary; R15 000 for training courses; and R2 000 for attendance at conferences. The grant agreement for the mentoring program was signed in November 1997, for the period of one year in the amount of R50 000. The 'program' was broadly defined as "exposure to housing conferences " and the furtherance of his "studies in housing finance". In terms of the grant agreement, it was also expected that Mr. Ngoma would "be available to LCDT without unreasonably interrupting his work requirements for RHF". From what we could establish, it appears that the money was used solely to supplement his salary and that the nature of the program involved placing Mr. Ngoma under the mentorship of a senior employee of RHF. During the period of the grant, Mr. Ngoma was promoted from Senior Business Development Officer to Manager of the Gauteng Region. In our interview with the CEO of RHF, it emerged that this would have occurred regardless of whether or not the grant had been made. We were unable to interview Mr. Ngoma, who was dismissed from his duties at RHF in September 1998 on account of dishonesty. The full term of the one year grant had not elapsed by this date, but a verbal agreement was entered into between LCDT and RHF that another employee of RHF would be selected as a mentee and that the balance of the grant would be spent on his/her development (at the time of our evaluation this person had not yet been selected).

Degree of conformance with intended results. As noted above, mentoring grants relate to Program Element 5 (mentoring program for young professionals). Notwithstanding its profit-making nature, we regard RHF as an "organisation which supports community-based housing and urban development", because it is involved in micro-lending to a sector of the market that commercial banks have historically avoided. As such, it can be considered an appropriate mentee employer in terms of the agreement. However, as in the case of mentee 1, LCDT did not support the placement of Mr. Ngoma, as he was already employed by RHF at the time of the application.

(b) Training

LCDT's involvement in training has mainly taken the form of the facilitation of workshops and seminars. CBOs, NGOs and Local Authorities that have benefited from this intervention include: Tshikota Development Trust; Phofung Sandstone Construction; Bophenlon Community Housing; Vaal Community Development Trust; Slovoville; Ennerdale; and Eastern District Council. Negotiations are currently being conducted with the Malawi-based Eastern & Southern African Management Institute (ESAMI) to provide management training for individuals from various South African CBOs which LCDT intends to nominate and sponsor.

Degree of conformance with intended results. These training activities relate to Program Element 4 (training support for CBOs). As noted above, LCDT's role should be to sponsor such activities. Its support, however, involved the CEO personally facilitating workshops and presenting seminars. This could be regarded as "sponsorship", but there is obviously a limit to the number of organisations that could be serviced in this manner. Plans to out-source the training function to organisations like ESAMI are more in line with the intention of the Agreement, but ESAMI offers packaged management courses, rather than tailored workshops and seminars.

4.4.6 Other Interventions

(a) Bophenlon Community Housing

LCDT's CEO had previously been involved in this former CUSSP project and continued his involvement after joining LCDT. No loans or grants were made, but the CEO joined the existing technical team and provided support in the form of advocacy at steering committee meetings and assistance in the development of a decision-making matrix for the project. The CEO recommended to the Board that LCDT fund the appointment of a consultant to replace him, but this was rejected on the grounds that there were insufficient funds allocated against the appropriate line item in the USAID-approved budget to permit this. LCDT's involvement in the form of the CEO's personal inputs to Bophenlon was thus terminated, given his extensive commitments to other projects and the management of the Trust's program.

Degree of conformance with intended results. LCDT's involvement in the above project falls within the scope of Program Element 2 which provides for technical assistance to communities and local governments, although it was not a pilot project developed by LCDT. In particular, it satisfies the intended result of further developing and refining housing delivery models pioneered under the CUSSP program.

(b) Ad Hoc Technical Assistance

Ad hoc reports on soil conditions/appropriate foundation design have been prepared personally by the LCDT's CEO (a registered professional engineer).

Degree of conformance with intended results. This intervention relates to Program Element 3 (support program for incremental housing improvements). In particular, it satisfies the component providing for on-site technical assistance.

4.5 Non-achievement of Intended Results

This section lists those intended results that were not achieved. For the purposes of this exercise, the Program Elements detailed in section 4.1 and the components of these as detailed in the Grant Agreement are taken to represent the nature and scope of LCDT's intended results.

It should be noted that we had some difficulty reconciling certain activities of the Trust with the corresponding program elements in the Agreement. This was often the result of semantic ambiguity or lack of clarity in the Agreement clauses. Our sense was that the Trust became involved in activities and programs that the Trustees regarded as falling within the broad aims of the Grant, using these, rather than the detailed wording of the program elements as guidelines. The following table lists the program elements and highlights components that were not carried out.

Table 2: Results not achieved

Program Element	Discussion
<p>1. Project Preparation Facility Loan Fund</p> <p>LCDT was to (i) establish a separate revolving loan fund, (ii) extend loans for community-based project preparation, (iii) fully recover loans, and (iv) recycle recovered (capital portion of) funds as new loans.</p>	<p>(i) was achieved (ii) was achieved (iii) was not achieved (but this is beyond LCDT's control) (iv) was not achieved, mainly because capital recovery has adversely affected by the slow- or non-repayment of loans. However, the R160 000 recovered from Tshikota Development Trust has not been recycled.</p>
<p>2. Technical Assistance to Communities and Local Governments</p> <p>LCDT will offer its services in the development of pilot projects of particular importance in the realisation of some or all of the following goals:</p> <ul style="list-style-type: none"> (i) Leveraging of private sector funds (ii) Development of innovative public/private partnerships (iii) Development of an improved policy environment and projects to demonstrate appropriate options for the HDP (iv) Models of environmentally sound sustainable development (v) Further development and refinement of CUSSP-pioneered housing delivery models. 	<p>(i), (ii), (iii) and (v) were achieved (iv) not achieved (made no attempt)</p>

Program Element	Discussion
<p>3. A Support Program for Incremental Housing Improvements</p> <p>LCDT intends to further the aim of initiating financial and material support to individuals struggling to improve their shelter in an incremental way, by:</p> <ul style="list-style-type: none"> (i) design and development of finance for small-scale, fast revolving credit on-lending (ii) collective materials supply (iii) on-site technical assistance (iv) entrepreneurial development <p>Specifically excluded from funding by LCDT are any or all venture capital loans, business development or expansion loans and/or capitalisation of small businesses.</p>	<ul style="list-style-type: none"> (i) Notwithstanding the fact that LCDT extended a loan to RHF which enabled the latter to expand its micro-lending operation, LCDT has not <i>designed or developed</i> finance for incremental improvement credit. (ii) LCDT has not <i>directly</i> financed or arranged collective materials supply. All three of the projects to which it made loans involved the manufacture of materials, but these projects generally involved <i>new</i> show houses, rather than <i>incremental improvements</i> to existing starter houses. (iii) was achieved (iv) <i>Indirect</i> financing/ support of entrepreneurial development has occurred where projects were built by emerging community contractors who acquired building and management skills on the job. However, these were <i>new</i> rather than <i>incremental improvement</i> projects.
<p>4. Training Support for CBOs</p> <p>LCDT aims to be a focal point for training assistance to key actors in the community-based housing implementation process. This will entail coordination of training between various development actors. Training includes sponsorship of briefing papers, workshops, seminars, <i>etc.</i> LCDT will finance and coordinate training.</p>	<p>In general, LCDT has not acted as a <i>coordinator</i> of training. Rather, its CEO has tended to become directly involved in, rather than sponsor and coordinate, the presentation of workshops and seminars. Notwithstanding the obvious value of this approach, the decision to intervene in this manner must clearly have limited the number of potential beneficiaries of such training.</p>

Program Element	Discussion
<p>5. Mentoring Program for Young Professionals</p> <p>LCDT aims to support the placement of previously disadvantaged young professionals in mentor organisations that support community-based housing and urban development. Trainees would be specifically encouraged and supported through in-service training courses. LCDT's role is to evaluate requests, define objectives and job descriptions, generally oversee the placements and administer the financial aspects.</p>	<p>LCDT did not support the <i>placement</i> of the two mentees assisted under the program- both were already employed by the organisations that applied to LCDT for support.</p> <p>Although the Agreement did not stipulate a target, we consider that this program element had the potential to make a more significant contribution to the overall program than it ultimately did, given that only two mentees were supported.</p>
<p>6. Policy and Research Support</p> <p>LCDT will provide extremely useful input to the regional policy and program formulation process. In addition LCDT could develop a sponsorship program for regional research in housing and urban development issues. LCDT could design and/or fund studies on a grant basis.</p>	<p>Apart from its indirect involvement in regional policy formulation through its grant to VCDT, LCDT has not been active in respect of this element.</p>
<p>7. Support for Environmental Initiatives in Connection with Residential Areas</p>	<p>None of LCDT's activities have satisfied the requirements of this element.</p>
<p>8. Facilitate Public/Private Sector Partnerships</p>	<p>This was achieved (See Section 4.3.2 for details of results achieved)</p>

Program Element	Discussion
<p>9. Documentation</p> <p>LCDT will evaluate the lessons learned from its project engagements. Two levels: evaluation of its projects in terms of methods used, resources required and impact achieved; and field testing and evaluation of USAID-financed technical guidelines produced under the CUSSP program with a goal to improving and disseminating these.</p>	<p>Our interpretation of this requirement was that these should be <i>internal</i> evaluations. No formal evaluations have been conducted, although internal reports describing the projects have been compiled and updated periodically. Neither field testing, evaluation nor dissemination have been formally undertaken. However, the CEO noted that, in his view, technical guidelines had not been sufficiently developed under CUSSP for this to have been possible.</p>
<p>10. Grants</p>	<p>The only grant made by LCDT was to VCDT, but as far as could be ascertained, it did not result in the development of tools that succeeded in raising funds from other donors.</p>

4.6 Conformance with Conditions of Agreement

4.6.1 Rate of Progress

The initial two year period (September 1994 to September 1996) was extremely unproductive, with no progress being made on any objectives. The Board members we interviewed believed that this inertia was due to three main causes: lack of dedication/motivation of the original Board; conservatism in the assessment of loan applications; and poor management (lack of a permanent co-ordinator). With reference to the latter cause, we note that R336 000 was allocated to the "Salaries and Benefits" line item in the original 1994 Agreement, which amount was increased to R1 290 000 in Amendment 1, reduced to R853 968 in Amendment 2, and again increased (because of exchange rate gains) to R1 113 968 in Amendment 3.

Substantially better progress was made between September 1996 and September 1998, with all of the accomplishments described in section 4.3 above having been achieved during this period. This improvement can largely be attributed to the employment of Mr. Lansana Marah as full-time CEO, and the decision to relax lending criteria. However, although the latter decision has enabled LCDT to progress by spending against the relevant line items, it has possibly introduced a new problem. Loan repayments have generally been poor, thereby making it impossible to fully comply with the requirement of the Agreement that funds be recycled. We were unable to judge the extent to which this was a function of poor assessment of risk, or of unreasonably lengthy delays in the payment of the housing subsidies, without which repayments would be impossible.

4.6.2 Deviation From Conditions of Agreement

This section reports on LCDT's non-compliance with (what we considered to be) conditions of the Agreement. However, as we noted in section 4.4, the wording of the Agreement was often ambiguous or unclear and consequently we were unsure of whether or not our interpretations were correct. In section (a) below we discuss such cases and explain our interpretation of the Agreement. Sections (b) to (e) deal with more obvious deviations.

a) Problems of Interpretation: Intention and Scope of the Agreement

Construction of Show houses. LCDT has made loans that were used for the construction of new show houses. This implies that the Board considers such use of loan funds to be legitimate - a view that was endorsed by the USAID Project Officer. Our interpretation of the Agreement in this regard is that no Program Elements permit such expenditure. However, the wording of the Agreement might be the problem. The only two Program Elements that could conceivably provide for such expenditure are Program Elements 1 and 8.

Program Element 1 permits loans to be used for "community-based project preparation". If this is intended to include the construction of new show houses, then such expenditure does not in our opinion represent a deviation from the Agreement.

Program Element 8 suggests that LCDT should *work with* Local Authorities and developers to create effective procedures to facilitate public/private partnerships, with the objectives of (i) giving developers the "security to proceed with confidence in housing development" and (ii) giving emerging contractors appropriate opportunities to gain experience and grow. In our view, it does not appear to permit any expenditure in the form of loans or grants. Rather, the emphasis seems to be on *collaboration*, with the aim of *developing procedures* to satisfy the two objectives. In his comments on a draft of this report, the USAID Project Officer believed this to be too literal an interpretation of the agreement.

Capitalisation of Businesses. One of LCDT's loans was used to establish a quarrying operation and a block-making factory, which implies that the Board considers such uses of loan funds to be legitimate. Even if the phrase "community-based project preparation" in Program Element 1 could be interpreted to include these uses of the funds, it should be noted that this appears to contradict the condition in Program Element 3 that *loans may not be made for business development/expansion or capitalisation of businesses*.

A further example in this regard is the debenture with RHF, which was applied for because, in order to mobilise NHFC credit, it had to demonstrate a capital adequacy level of 10% (now reduced to 8%). The debenture was issued specifically for the purpose of demonstrating such adequacy. Our opinion is that RHF is a business, but the fact that it is a wholly owned subsidiary of a Section 21 (not for gain) company introduces some doubt regarding whether or not providing it with a business development loan constitutes a deviation from the Agreement.

Mentees' Salary Payments. An issue of concern is that the contents of the mentoring clause in the Grant Agreement and the mentoring objective contained in the Deed of Trust appear to differ on the issue of whether or not the grant can be used to pay mentees' salaries. The Grant Agreement is silent on the issue, but the intention appears to be that the costs of in-service training, rather than salary, would be underwritten. Objective 4.1.2 of the Deed of Trust, however, specifically provides for the payment or supplementation of salaries. A further

provision of this objective is that the experience and related training should be of the nature that they would not usually be available through the normal operation of the job market. Our understanding is that the conditions of the Grant Agreement should govern the expenditure of the Grant, regardless of any additional provisions contained in the Deed of Trust. If this interpretation is correct, and the phrase "...administer the financial aspects..." does not refer to the payment of salaries, then it should be noted that the expenditure of R29 960 on Mr. Mokonyane's salary represents a deviation from the Agreement. In his response to the draft of this report, the USAID Project Officer noted that this was rather a strict interpretation of the documentation.

b) Required Performance in Terms of the Program Elements

The intention of the Agreement regarding the Project Preparation Facility Loan Fund was that this should be a *revolving* fund. More specifically, this meant that LCDT was free to decide on how to use the interest earned, but was obliged in terms of the Agreement to recycle all capital recovered. LCDT has, to date, only recovered about R168 000 of the R600 000 capital it lent out. Whether or not it recovers, and how long it takes to recover, are essentially beyond its control and we did not consider slow or non-recovery as a deviation from the Agreement.

However, LCDT has not recycled the R168 000 that has been recovered as a new loan, or as new loans, as it should have done.

c) Reporting

The Agreement required LCDT to submit to USAID semi-annual reports on funded activities, relating to the periods March 31 and September 30. We requested copies of these and were provided with copies of four income and expenditure reports, respectively dated 31 December 1996, 30 June 1997, 31 December 1997 and 30 June 1998. These reports did not correspond with the semi-annual periods stipulated by the Agreement and did not contain descriptions of the funded projects. We were, however, also given copies of internal annual reports which did contain project descriptions. We assume that all of these reports were submitted to USAID.

Notwithstanding the fact that no activities were funded by LCDT during the period September 1994 to September 1996, financial and descriptive reports covering this period should have been submitted. As we were not given any reports pertaining to this period it was our understanding that neither financial nor descriptive reports were submitted in respect thereof. In its response to the draft of this report, however, LCDT indicated that all the reporting requirements in terms of the Agreement had been fulfilled, including descriptive reports from September 1994 to September 1996. Since our evaluation, as reported above, was based on documents supplied to us by LCDT, we assume in the light of this response that we were not provided with all of the relevant documentation.

d) Policy on Consultants

The Agreement required LCDT to develop a policy regarding the advertisement, acceptance, administration and payment of consultants, and to submit this to USAID for approval. This did not occur.

In its response to a draft of this report, LCDT noted that in 1995 the Board prepared "Guidelines for the Appointment of Consultants", which were based on the procurement policy of the Western Cape Project Preparation Facility. However, the CEO was unsure of whether or not this document had been sent to USAID for approval.

e) Financial Plan

Each of the three amendments to the original Agreement contained revisions to the financial plan, which incorporated the effects of any gains on the Rand by the Dollar and rectified any deviations from the original plan by moving allocations between line items.

We requested and were given access to a financial audit of LCDT prepared by PRICEWATERHOUSECOOPERS Inc. We understand that the audit report has been presented to USAID and that all irregularities have been reported and rectified. An unresolved issue raised by the auditors in July 1998, is the question of whether or not LCDT will be able to function profitably without ongoing donor funding. Although post-grant sustainability was not specifically required by any clause in the Agreement, it is clear from the “sustainability” clause in the action memo authorising the Agreement (signed in 1994 by Leslie Dean, then Director of USAID/South Africa) that USAID expected LCDT to be capable of continuing its work once the Grant had expired. It was anticipated that fee income from services provided and grants from other donors would make this possible, but in a statement of “Profit and Loss by Class” for the period 1 October, 1994 to 18 September, 1998 no income was attributed to these sources.

4.7 Results of Trainee Impact Assessment Survey

In accordance with clause 6 of the Scope of Work, we questioned one of the two mentees with a view to establishing the effectiveness of the program.

The mentee believed the program to have been a success, but felt that it should have been longer than one year in duration. He reported that the skills and experience he gained under the program were used in his work after the expiry of the mentoring period, but noted that he had changed employers shortly thereafter. Given that he moved from a law firm to a development consultancy and that the skills and experience he gained under the program were mainly of a notarial and conveyancing nature, there is little demand for them in his current employment. However, the writing skills he obtained under the program are being employed in his current work and in his other activities as a Trustee of LCDT.

The main impact on his professional life was that the program enabled him to specialise in housing and property matters and exposed him to the management of the law firm’s Trust account. In addition, he obtained a detailed knowledge of the housing subsidy scheme and application process. The main long term benefit he has derived from the program is that it has expanded his career possibilities.

4.8 Libuyile’s Achievements from a Broader Perspective

As stated in the introductory comments to the section Findings 4.1 (page), the Grantee’s comments on the draft evaluation report² were critical of the fact that we had allegedly missed the “broad picture” - *i.e.* that we had failed to comment on the value of LCDT’s interventions, regardless of the extent to which they had satisfied the specific requirements of the Agreement. In the preceding presentation of our findings we have indeed been strictly guided by the Scope of Work, which called for a comparison of actual achievements versus intended results. Although the SOW did not call for an assessment of achievements in a broader context, the following findings as regards Libuyile’s achievements from a broader perspective are

²The Grantee’s comments are appended to this report in Annex C.

noteworthy.

In our opinion, LCDT's interventions (described in sections 4.3.2 to 4.3.6) were generally beneficial to the recipients. We also believe that, given its chosen intervention methods, budget and staff complement, LCDT has done well to produce the results it has, after an unimpressive start.

We do not, however, agree that the chosen intervention methods were always the most sensible or effective. Nevertheless, if we were to comment on whether or not this was a worthwhile Grant from a USAID perspective - ignoring the strict conditions of the Agreement - our response would be mixed. Certain of LCDT's interventions definitely were worthwhile (e.g. the projects described in section 4.3.2), while other interventions were, in our opinion, less valuable (e.g. the RHF debenture described in section 4.3.3 - why the need for LCDT when USAID could have given the money directly to RHF?). In sum, taking a broader perspective and ignoring the restrictions imposed by the actual wording of the Agreement, this Grant funded a reasonably (*i.e.* there was scope for improvement) successful range of interventions.

5. Unanticipated Consequences

Two related factors adversely affected LCDT's ability to carry out certain of its intended activities. These were: delays in the flow of subsidy monies from the Provincial Housing Board; and the slow or non-repayment of LCDT's loans.

In two of the three projects that LCDT funded, the ability to repay the loans was entirely dependent on the anticipated income from the sale of houses to subsidised buyers. The process of getting subsidy applications approved by Provincial Housing Boards took far longer than expected due to the queueing system and staff shortages or inexperience. This was compounded by the fact that some PHB's did not actually have the funds to allocate to approved schemes. LCDT's clients were consequently unable to meet their repayment obligations, which meant that the revolving fund was unable to function as such.

6. Lessons Learned

This section reports on our interviews with the LCDT's CEO, where the discussion focussed on the identification of lessons learned from its involvement in its various projects. In addition, recommendations and guidelines flowing from these lessons are suggested in the interests of developing best practices (further, higher level recommendations are made in section 8).

6.1 Loan Policy Issues

- C project loans should only be made once the necessary preliminary steps such as the proclamation of land have been finalised;
- C where loans are to be used for the construction of show houses, these should be representative of what is likely to be affordable for subsidy recipients;
- C given the unpredictability of external factors, such as delays in the approval of subsidy applications by Provincial Housing Boards, repayment commencement dates should be flexible;

- C loans for core funding should be tied to specific deliverables;
- C effective procedures need to be developed to deal with non-payment;
- C where loans are made to projects involving joint ventures between developers, communities and local authorities, an external consultant such as LCDT should broker such partnerships and audit the books;
- C loan policy should pay due regard to the likelihood of success of projects involving Public/Private/Community partnerships;
- C loan agreement financial plans for complex projects should include a line item for the employment of a manager. A LCDT employee could possibly play this role for a number of separate projects - with counterpart mentees in each project/ community to eventually assume this role;
- C the greatest demand for funding is for development capital or seed funding loans, which are expressly prohibited by Program Element 3 of the amended Agreement. LCDT believes that it should either be able to provide such funding, or should not get involved in such projects at all because, without the funding being in place, its inputs would essentially be wasted and would be more profitably employed in other financially viable projects.

6.2 Dependency on Key Players

LCDT's ability to succeed in its interventions is frequently almost entirely dependent on the personal skills and experience of its current CEO. However, these are concentrated in one person and, should he become unavailable or irreplaceable, LCDT would be unable to make such interventions. A lesson is that, to diminish this vulnerability, LCDT should seriously consider employing a suitably qualified deputy to understudy the CEO.

A further lesson is that there is a danger that Grants might serve to empower individuals within the recipient organisations responsible for their management, rather than the communities they represent. The effect on communities of such individuals withdrawing from the process can be to revert to the pre-grant situation.

6.3 Delivery vs. Co-ordination of Training

Based on its experience, LCDT believes that the original aim requiring the Trust to co-ordinate training between various development actors is unrealistic. LCDT believes that the presentation of workshops to key players on issues related to particular projects is a far more effective means of delivering on the training objective. We were unable to substantiate this on the basis of any tangible evidence, such as comparative course evaluation surveys, though by noting this we do not mean to imply that LCDT was deficient in this area. We also did not interview any of the participants of these workshops, mainly because of the logistical difficulties of arranging the necessary interviews to coincide with our extremely tight program. A lesson flowing from this, is that the Grant Agreement should be compatible with the capabilities or preferences of the Grantee, and in the case of LCDT should, with USAID's consent, have been amended to reflect these.

6.4 Future Direction

In November 1997, LCDT and its partners undertook a strategic planning exercise which

resulted in a resolution to concentrate on its strengths. The key decision was that LCDT would become more involved in retail lending (with further investments like the RHF debenture) and less involved in issuing grants.

7. Conclusion

LCDT has not satisfied all of the objectives listed in section 3.2. We believe that this is because the scope of the program is too broad. The program elements are too numerous and cover too wide a range of activities for an organisation with LCDT's current structure to be capable of delivering on all fronts. If USAID intends measuring the Trust's performance in terms of its ability to deliver on all elements of the program, then this breadth is a problem, because with its current structure and size, LCDT simply cannot do this. If, however, in designing the program, the intention was to identify a range of potential interventions, without the expectation that LCDT should pursue them all, then this breadth is not a problem.

The underlying intention of all program elements is to *facilitate*, rather than *do*; to *initiate*, rather than *implement*; to *co-ordinate*, rather than *provide*; to build capacity across a *broad spectrum*, rather than *concentrate* on a small sample. Much of LCDT's intervention has involved *doing*, at a considerable and inappropriate cost to the CEO's time. It has tended to associate itself with existing projects to the detriment of its role of designing pilot projects and it has tended to provide, rather than coordinate, training and technical inputs.

Too many of the Trust's achievements have depended on the CEO's: previous association with CUSSP; engineering skills and experience; and personal contacts with trustees and other key players in client organisations. The addition of one or two personnel would spread the risk of the potentially devastating effect of losing the CEO and enable the Trust to deliver on more program elements. This, however, would seriously affect the Trust's profitability.

The fact that LCDT and its partners have planned strategically for the post-Grant future is good. However, we believe that the decision to focus on retail lending was inspired more by the fact that LCDT could not afford to significantly increase its staff numbers (coupled with the problem that the CEO had announced his intention to resign as soon as possible) than by the letter and spirit of the Trust's original objectives³. We believe that the original objectives of the Trust and those of the USAID Agreement were compatible and mainly sought to provide support to CBOs so that they could fund the preparation of project proposals.

8. Recommendations

It should be noted that these recommendations are made by the assessors based on a limited understanding (due to time constraints) of the organisation and the environment within which it operates.

Based on our interpretation of the degree to which LCDT has achieved the purpose and objectives of the Agreement, we recommend that USAID should **not** extend the period of the

³ as laid down in section 4 of the Deed of Trust

Agreement beyond the 30 September 1999 expiry date. Within the context of such a scenario we also recommend that the funds remaining in the Project Preparation Facility Loan Fund (including the capital portion of the repayments still due from all three projects) should either be returned to USAID, or -in line with LCDT's original function as a regional funding "umbrella" for USAID assistance to CBOs and NGOs- should, alternatively, be distributed by LCDT as grants to deserving NGOs and CBOs in the housing sector.

However, we also believe that our perception that LCDT has under-performed flows from our strict interpretation of the conditions in the Agreement. This document is often confusing and contains an unrealistically broad set of program elements. If USAID concurs with our view that the Agreement is ambiguous and over-ambitious, the Agency may in fact wish to **reconsider** our recommendation and may prefer to extend the Agreement term, in which case LCDT should:

- C submit a request to USAID to process a fourth amendment to the Agreement. Ideally this amendment should narrow the scope by eliminating all of the requirements that LCDT has not been able (or does not wish) to deliver on, and it should eliminate any ambiguities or vagueness.
- C become more focussed. This will necessitate deciding which service/s it wishes to offer after the September 1999 expiry of the USAID Agreement. Based on its performance to date, we suggest that it should retain its debenture arrangement with RHF and make smaller (e.g. R50 000 to R70 000) loans to communities to enable them to pay consultants to assist them in the preparation of funding proposals and/or subsidy applications for infrastructure and housing projects.
- C redeem its RHF debenture in July 2002 and divert this capital to projects where better leveraging ratios can be realised (similar NGOs achieve ratios in the range 1:30 to 1:100).
- C consider expanding the Board of Trustees to include more individuals with project preparation skills and experience.
- C consider introducing one or more working committees, which would include Trustees, in order to provide the CEO with more active support in the management of the organisation.

ANNEX A

EVALUATORS' SCOPE OF WORK

A.1 Scope of Work

In terms of our agreement with Macro International Inc. we were commissioned to conduct a performance evaluation of LCDT, the Scope of Work being as follows:

- C review relevant information sources and interview representatives from Grantee organisations with a view to establishing the aims and objectives of the Grant and how these link with USAID's SO6 goals.
- C for RP#2 Grants, meet with the CUSSP Project Officer to gain an understanding of the projects and how the project preparation trusts were to relate to the former CUSSP project.
- C assess the current status of the Grant in terms of individual accomplishments and in comparison to the intended results agreed on by the Grantee and USAID.
- C identify and discuss the rationale for any transformation or changes that have occurred in the organisation.
- C determine and show whether or not results have been achieved and goals met, and whether this was done within the agreed upon Grant arrangements.
- C for all performance levels, assess the rate of progress/non-progress.
- C for training-related components of the performance assessment, conduct a trainee impact assessment survey. This should address the following questions:
 - a) what was the trainees' perception of the training experience?
 - b) whether trainees are using the experience gained, and how?
 - c) whether the training has impacted on the professional life of trainees, and how?
 - d) what concrete examples can be provided of things learned?
 - e) what do trainees' envisage will be the long-term benefits of training received?
- C indicate whether there were any unanticipated positive or negative consequences and how these impacted on the program.
- C highlight lessons learned by or through the Grant and identify best practices.
- C make suggestions and recommendations regarding the overall performance and future activities of the Grantee and USAID.
- C if necessary, debrief Grantees and organisations prior to departure.

ANNEX B

SYNTHESIS : RESULTS CONTRIBUTION TO SO6 RP#2, SO6 RP#3 AND SO6

B.1 Synthesis: Results Contribution to SO6 RP#2, SO6 RP#3 and SO6

SO6 Results Package #2: Shelter Finance

Intermediate Result #6.2: Previously ineligible households, developers, builders and municipal service providers obtain access to credit for shelter and urban services

In terms of the IR-level indicator; 'rand value of credit obtained by HDP homeowners, builders/developers and service providers', LCDT has been partially successful. Direct, short-term loans have been made but not always on a sustainable or revolving fund basis since the recovery rate of the capital portion of the loans has been poor. The leveraging of R1.5 million of LCDT funds by a factor of ten, through the purchase of a debenture, has contributed to this IR although it is not clear what proportion of this credit funding was used on shelter or urban services. In addition, if one accepts that approximately 80% of housing need is generated by those earning less than R1500 per month, this activity, because it is aimed only at the formally employed, has had no impact at the level of income where it is most needed.

SO6 Results Package #3: Support for CBOs and NGOs

Intermediate Result # 6.3: Increased Non-credit forms of assistance to the HDP for obtaining access to shelter and urban services

It is noted that this Results Package description does not corroborate fully with the required Intermediate Result nor with the IR-level indicator. In terms of the IR-level indicator: '*number of HDP households that receive services through non-credit assistance*', LCDT has been partially successful. One successful project supported by LCDT (R200 000 loan) has resulted in the construction of 350 houses and the provision of services and partial completion of another 450 houses. Two other projects (each with a LCDT loan of R200 000) have produced a total of 32 show houses, but no other houses. Other LCDT activities have provided capacity building to a limited number of CBOs.

SO6 Goal: ***Improved access to environmentally sustainable shelter and urban services for the historically disadvantaged population***

The *environmentally sustainable* aspect of the SO6 goal does not appear to have been a factor with respect to LCDT's RP#2 and RP#3 activities. Other aspects of the goal have been partially achieved but in a non-sustainable manner. The SO6 housing strategy is 'designed to support the national effort to adequately house the disadvantaged *majority*'. Much of LCDT's effort does not relate to the lowest income cohort where the majority of the housing need lies - a point made above. Much of the emphasis to date has been on shelter rather than on access to urban services such as water, sewerage and roads which, to many shack-dwellers, are more important than the top structures.

ANNEX C

LCDT's Comments on the Draft Evaluation Report

LCDT's comments on the first draft of the evaluation report (which was issued on 5/12/1998) are

enclosed for the record. The consultants have reviewed all comments and have made their changes, as and where appropriate. If the report does not reflect a suggested change then this indicates that the consultants did not agree with the particular comment made.